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SUBJECT: FRANCE: ENERGY SECTOR UPDATE

Sensitive but unclassified - Contains company proprietary information.

Ref: Paris 3654

1. (U) This is the second in a series of occasional updates on the French energy sector. Feedback is welcome to help us make this product as useful as possible for our Washington inter-agency audience.

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2. (U) GDF share sale raises over four billion euros: Sixty years after the nationalization of the French electricity and gas industries, the government has turned a historical page, selling shares in gas utility Gaz de France (GDF) for the first time (see Paris 4999). The GDF will keep a 79% stake in the partially privatized company. The government will use the 2.5 billion euros in expected proceeds to reduce public debt and to fund "innovative industries." GDF also sold new shares and plans to use its two billion euros in new capital to expand and to prepare for increasing national and international competition. The success of the offering has given impetus to the government's plan to move forward with other privatizations, including electricity utility Electricite de France (EDF) later this year.

3. (SBU) Total concerned about its concession in Sudan: In June, Total company executives told us that they were very concerned about the "White Nile" challenge to their "Bloc B" concession in southern Sudan, which was attributed to Marathon Oil in joint venture with Total. White Nile is a UK-based company established recently and owned primarily by a celebrity British cricket player, who apparently cut a deal with the SPLM-SPLA rebel leaders, even though the Sudanese Government had already granted a concession for the area to Marathon/Total. Total is concerned that, as the peace process proceeds, the joint government/rebel commission deciding which oil concessions are valid will be pressured to validate some rebel-negotiated deals, such as this one. They see a real potential vulnerability of losing their investment, which has been effectively frozen for over 20 years.

4. (SBU) French nuclear powerhouse Areva bids to buy rival Westinghouse: Recent reports in French daily Le Figaro and BBC News say that French nuclear conglomerate Areva is bidding to buy U.S. competitor Westinghouse from its current owner, state-owned British firm BNFL. Areva reportedly hopes that its purchase of Westinghouse could give greater access to the large American market, as the U.S. government supports the construction of new nuclear reactors to address growing U.S. energy demand. Another factor in the decision to bid may have been Westinghouse's success and Areva's failure to win USG advocacy for potential nuclear reactor sales in China. However, Areva faces stiff competition in what is quickly becoming a bidding war for Westinghouse. Earlier, Mitsubishi made a 1.8 billion dollar bid to purchase Westinghouse. General Electric, the Shaw Group, and the Cerberus investment fund have also reportedly made offers. According to BNFL, several bidders have made offers, which they will evaluate over the next six months.

5. (U) France adopts new energy law: After surviving a challenge in the French Constitutional Court, a new energy law was formally adopted on July 13. The key provisions of the new law will:

- promote energy diversity by increasing the percentage of renewable energy in electric production from 13 to 21%

by 2010; increasing by 50% the quantity of heat produced by renewable energies (biomass, wood, solar, geothermal) and increasing from 1 to 5.75% by 2010 the proportion of biofuels in gasoline and diesel.

- promote energy conservation by creating energy certificates which require large energy users to conserve energy either directly, indirectly, or by acquiring "white certificates," which can be traded through a national register.

- keep "nuclear option" open by breaking ground on a demonstration nuclear reactor "of the most recent design", i.e. the European water pressurized reactor (EPR), by 2007 and completing construction by 2012.

- strengthen research for new energy technologies (carbon sequestration, fuel cells, solar energy, etc.).

16. (U) New French Industry Minister takes over energy portfolio: Following the GOF reshuffle on June 2, Francois Loos, 51, stays on as Junior Minister ("Ministre Delegeue") in the French Ministry Economy and Finance, but he switches portfolios from Foreign Trade to Industry. The Industry Ministry is responsible, inter alia, for all energy issues. Loos was previously Junior Minister for Higher Learning and Research. Loos' background is not that of a typical French politician. A graduate of France's prestigious Polytechnic School, and an engineer, he also holds a degree in Mathematics. Unlike many of his colleagues, he has a strong private sector background, which includes Secretary General of Research for French pharmaceutical giant Rhone-Poulenc, and CEO of Lohr SA Group, a manufacturer of industrial trucks and specialized vehicles.

17. (SBU) France celebrates ITER site selection: After three years of tension and negotiations, the six international partners have decided to build a International Thermonuclear Experimental Reactor (ITER) in Cadarache, France (see also Marseille 0063). ITER is a definite positive 'deliverable' the French government can point to in an otherwise dismal year, e.g., the French 'Non!' to the EU Constitution and the IOC's 'Non' to France as the host country for the 2012 Olympic games, the country's continued flat economic performance. In the south of France, ITER is undoubtedly being seen as a triumph that will assure jobs for years. A specialist in technology and research matters, French Parliamentarian Claude Birraux thinks that ITER is a very important project, as well as a very long-term one, and said he is hopeful that it will prove a success on different levels. He thinks ITER could serve as a model for future international research collaboration on Generation IV and high-level nuclear waste, for example. Such a model will be required to deal with the intellectual property considerations of advanced research in these areas.

Stapleton